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MONTANA ENERGY TAX BENEFITS

A guide to state and federal tax incentives
for conservation and renewable energy

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MONTANA DEPARTMENT OF NATURAL RESOURCES
AND CONSERVATION

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MONTANA ENERGY TAX BENEFITS

This booklet contains summaries of energy-related tax benefits available in Montana. It was prepared by the Energy Division of the Montana Department of Natural Resources and Conservation as a general introduction to state and federal tax incentives for conservation and renewable energy. However, the responsibility for determining tax liabilities rests with the appropriate taxing authorities. To ensure you use these tax benefits correctly, contact the agencies identified in each of the following sections if you have any questions.

STATE BENEFITS

INCOME TAX CREDIT FOR ENERGY CONSERVATION

Montana taxpayers can qualify for a 5 percent tax credit, up to a maximum of $150, for energy conservation improvements installed in residential buildings, and a 5 percent credit, up to a maximum of $300, for commercial, industrial or agricultural buildings (Section 15-32-109, MCA).

The credit is equal to 5 percent of the costs of materials and installation of an energy conservation project, minus the value of public or private grants received. The entire cost of energy conservation work done in existing structures may be used to determine the credit, but in new construction only the portion of the work that exceeds state energy conservation standards may be used.

A state income tax credit is subtracted directly from the state income tax owed. The tax credit may be taken only for the year the installation is completed and only for buildings located in Montana.

Energy conservation installations qualifying for the income tax credit include:

- insulation added to floors, walls, ceilings and roofs in existing buildings;
- insulation in new buildings of floors, walls, ceilings and roofs, in excess of established standards;
- insulation of pipes and ducts located in a non-heated area;
- insulation of hot water heaters and tanks;
- special insulating siding with a certified insulating factor substantially greater than that of normal siding;
- storm doors and storm windows;
- triple glazed windows;
- insulated exterior doors;
- caulking and weatherstripping;
- hot-water flow restrictors;
- waste heat recovery devices;
- glass fireplace doors;
- exhaust fans used to reduce air conditioning requirements;
- replacement of incandescent light fixtures with a more efficient type;
- lighting controls with cut-off switches to permit selective use of lights; and
- clock-regulated thermostats.

Wood stoves, fireplaces, and fireplace modifications (with the exception of glass fireplace doors) are not eligible for these income tax credits or for property tax exemption. More information is available from the Department of Revenue's Research and Information Division, Mitchell Building, Helena, Montana 59620, 444-2981.

Those claiming the state tax credit for energy conservation must file Form 2C with their Montana income tax returns.

INCOME TAX CREDIT FOR RENEWABLE ENERGY

Individuals who install a renewable energy system (one that does not use fossil fuel) in their principal residence in Montana before December 31, 1986 may claim a credit to reduce their state income tax. They can earn credit for systems installed since December 31, 1976, if they have not already claimed credit. The maximum credit is $125 -- 5 percent of the first $1,000 of the system cost, plus 2 1/2 percent of the next $3,000. A state income tax credit is subtracted directly from the state income tax owed.

The cost of both materials and installation may be used to determine the amount of the tax credit, but the value of any public or private grants received for the project must be subtracted. In any one year, the credit claimed may not be greater than the state income tax owed. However, any unused portion of the credit may be carried over and applied against state tax liability for the next four taxable years.

Qualifying renewable energy systems use nonfossil sources such as solar energy, wind, solid wastes, or the decomposition of organic wastes for energy generation. Also included are systems for generating electricity from wood wastes, geothermal energy, and hydropower from impoundments no larger than 20 acres. The 1979 Legislature made passive solar systems eligible for both the income tax credit and the property tax exemption (Section 15-32-201 MCA). However, these tax benefits are limited to the portion of the passive system specifically designated to collect, store, and distribute solar energy, such as additional south-facing windows or heat storage mass. Heat pumps, wood stoves, and fireplaces are not eligible for tax benefits.

To claim this credit, file Form 2B with your Montana income tax return. More information is available from the Department of Revenue's Research and Information Division, Mitchell Building, Helena, Montana 59620, 444-2981.

PROPERTY TAX EXEMPTION FOR RENEWABLE ENERGY

An individual or firm that installs a renewable energy system in any kind of building in Montana after January 1, 1979, is eligible for a 10-year property tax exemption based on the value of the system. For a single family residential dwelling (including a mobile home), property taxes are exempted on a maximum of $20,000 of the system's appraised value. Up to $100,000 of the system's value is exempt if installed in a multi-family residential dwelling or in a nonresidential structure (Section 15-6-201, MCA).

To be eligible for the property tax exemption, a renewable energy system must meet the following criteria:

- The system must be able to generate energy by use of "recognized nonfossil" means.
- The system's components must be unique to the system and not standard components of the structure for which it provides energy. (Standard components of conventional structures are those that are generally necessary for structural support, shelter, ventilation, temperature control, lighting, or maintenance of the occupant's regular lifestyle.)
- The predominant use of the system must be energy generation.

The predominant use of the system will be determined as <u>other than</u> energy generating if it possesses any <u>two</u> of the following characteristics:

- It is a structure that will be occupied more than four hours in a day.
- It is a structure that serves as a regularly used entry way to the building for which it provides energy.
- It is a structure that receives heat from a source other than the energy it generates.
- It is a structure that contains more space than is reasonably necessary for energy collection, generation, and distribution.
- It is part of the living area of the structure for which it provides energy.

The forms needed in applying for the property tax exemption are availeble through the county assessor's offices. In order to receive the full benefit of the property tax exemption, an applicetion must be filed before April 1 following the date of completion of construction of the system.

For more information about the property tax exemption law and the rules adopted, contact either the county assessor or the Property Assessment Division, Montana Department of Revenue, Capitol Station, Helena, MT 59620, 444-2808.

TAX CREDIT FOR COMMERCIAL INVESTMENTS IN WIND SYSTEMS

Individuals and corporations that invest $5,000 or more in capital expenditures for a commercial-wind powered system may claim a credit to reduce their state income or corporate license tax (Section 15-32-402, MCA).

They can earn a credit for investments made in eligible equipment placed in service since December 31, 1982. The tax credit that may be taken is 35 percent of taxable or net income produced only by the following:

- manufacturing plants located in Montana that produce wind energy generating equipment;
- new or expanding businesses that purchase wind-generated electricity on a direct sale contract to meet their power needs; or
- the wind energy generation equipment for which the credit is being claimed.

The credit may not be claimed against income from any other sources. If this energy credit is claimed, no other state energy tax incentive or property tax reduction may be claimed for the investment.

The eligible costs that may be used to determine the amount of the tax credit include expenditures associated with the purchase, installation or upgrading of generating equipment, safety devices and storage components, and transmission lines. The value of any public or private grants received for the project must be subtracted from the eligible costs.

A tax credit greater than the tax owed cannot be claimed in any one year. However, any unused portion of the credit may be carried over and used within seven years after the equipment was installed.

More information on the tax credits for commercial investments in wind systems is available from the Department of Revenue's Research and Information Division, Mitchell Building, Helena, Montana 59620, 444-2981.

ALCOHOL TAX INCENTIVE

Individuals or businesses in Montana who produce alcohol from Montana-grown agricultural products for use as gasohol can take advantage of a tax incentive established by the 1983 Legislature (Section 15-70-522, MCA). The alcohol producer is entitled to the following payment from the Department of Revenue for each gallon of alcohol distilled:

- beginning July 1, 1983, 70c per gallon;
- beginning April 1, 1985, 50c per gallon;
- beginning April 1, 1986, 30c per gallon;
- on April 1, 1989, this tax incentive will terminate.

This payment will be reduced by the 15 cents per gallon gasoline license tax imposed on alcohol produced for blending and sale as gasohol. The payment would be reduced further if the amount of gasohol sold in any six-month period exceeds a specified share of the total non-aviation gasoline and gasohol sold for that period.

Before beginning to produce or distribute alcohol in Montana, an individual must purchase a gasoline distributor's license from the state Department of Revenue. In order to qualify for payment of this tax incentive, he must submit a form identifying the amount of alcohol sold for use as gasohol and provide records showing the amount sold and who was the purchaser.

More information on the alcohol tax incentive is available from the Department of Revenue's Motor Fuel Tax Division, Capitol Station, Helena, Montana 59620, 444-3473. This office will also answer questions regarding licensing and reporting requirements.

GASOHOL FACILITY PROPERTY TAX REDUCTION

Real and personal property used primarily in the production of gasohol in Montana is eligible for property tax reductions. Tax reductions are allowed during the construction of a gasohol facility and during its first three years of operation (Section 15-6-135, MCA). During this time, eligible gasohol facilities are taxed at 3 percent of their market value, as is all new industrial property. Unlike other new industrial property, however, the tax reduction for gasohol plants also applies to new facilities built through expansion or merger of existing facilities. After three years of operation, the facility is taxed at the usual 11 percent rate for such property.

More information is available from the county assessor, or from the Department of Revenue, Property Assessment Division, Capitol Station, Helena, MT 59620, 444-2808.

FEDERAL BENEFITS

FEDERAL TAX CREDIT FOR ENERGY CONSERVATION

Homeowners and renters are eligible for an income tax credit for energy conservation, provided they actually pay for the qualifying items. Eligible expenses would be:

- insulation designed to reduce heat loss or heat gain of a residence;
- insulation wrap on a water heater;
- storm or thermal windows or doors for the exterior of the dwelling;
- caulking or weatherstripping of exterior doors or windows;
- clock thermostats or other automatic energy-saving setback thermostats;
- furnace modifications designed to increase fuel efficiency, including replacement burners, modified flue openings, and ignition systems that replace gas pilot lights;
- meters that display the cost of energy usage;
- additional items, when specified by the Secretary of the Treasury as increasing the efficiency of the dwelling.

Items that DO NOT qualify for the tax credit include; heat pumps, insulating curtains, fluorescent lights, wood- or peat-burning stoves, replacement boilers and furnaces, hydrogen-fuel equipment, exterior siding, and swimming pool heating.

The equipment must be installed on a principal residence (not on a second home). The applicant must be the original user of the equipment claimed for the credit. Only expenditures between April 20, 1977 and December 31, 1985 may be claimed.

The tax credit is 15 percent of the first $2,000 spent on eligible material and equipment to conserve energy, for a maximum credit of $300. The 15 percent credit must be claimed for the tax year in which the items are installed.

To claim the credit, file Form 5695 with a federal income tax return. The amount of credit for which you qualify is subtracted directly from your income tax liability. In any one year you may not claim a credit greater than the federal income tax you owe. However, any unused portion of the credit may be carried over and applied against your tax liability in the succeeding tax years. Additonal information is available in Publication 903, Energy Credits for Individuals, or from the Internal Revenue Service. Call toll free (800) 424-1040.

FEDERAL TAX CREDIT FOR RENEWABLE ENERGY

Homeowners also may receive an additional energy credit for solar, wind-powered or geothermal systems used for space heating or cooling, domestic water heating, or electricity generation. For example, solar energy items that may qualify include collectors, rockbeds, heat exchangers, and solar panels. Equipment for heating swimming pools does not qualify.

The renewable energy equipment must be installed in connection with a principal residence and must meet the following requirements:

- the claimant must be the original user of the item claimed for the credit;
- the equipment must meet certain performance and quality standards to be specified by the Secretary of the Treasury;
- the item must be expected to remain in use for at least five years.

The tax credit is 40 percent of the first $10,000 spent on qualifying expenditures, or a maximum credit of $4,000. These expenditures include labor costs, installation, and equipment, but exclude structural components of the dwelling. The credit may be claimed more than once if an individual expands an existing system or purchases more than one system, but the cumulative credit is $4,000 per residence.

Eligible individuals must file Form 5695, mentioned above, with a federal income tax return. More details are available from the Internal Revenue Service in Publication 903, or by calling the Internal Revenue Service Regional Taxpayer Service number (toll free) 800-424-1040.

FOR MORE INFORMATION

For additional material on energy conservation and renewable energy, please write or call:

Department of Natural Resources and Conservation
Energy Division
Capitol Station
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444-6696

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